

# STUDENT THESIS

THIS PAPER IS AN INDIVIDUAL EFFORT ON THE PART OF A STUDENT AT THE US ARMY WAR COLLEGE. IT IS FURNISHED WITHOUT COMMENT BY THE COLLEGE FOR SUCH BENEFIT TO THE USER AS MAY ACCRUE.

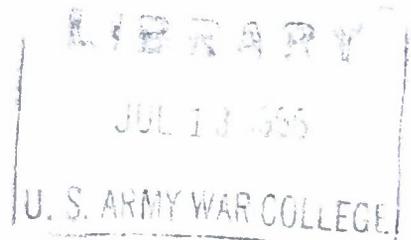
8 April 1966

## A STRATEGY FOR IMPOSING REPRESSIVE ECONOMIC MEASURES AGAINST COMMUNIST CHINA

By

HARLAN C. STINE

Colonel, Armor



REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS PROHIBITED EXCEPT WITH PERMISSION OF THE COMMANDANT, US ARMY WAR COLLEGE.

US ARMY WAR COLLEGE, CARLISLE BARRACKS, PENNSYLVANIA

Copy No. 1 of 8 Copies

AWC LOG #  
66-4-79 U



# DEFENSE TECHNICAL INFORMATION CENTER

*Information for the Defense Community*

DTIC® has determined on 04/17/2009 that this Technical Document has the Distribution Statement checked below. The current distribution for this document can be found in the DTIC® Technical Report Database.

- DISTRIBUTION STATEMENT A.** Approved for public release; distribution is unlimited.
- © COPYRIGHTED;** U.S. Government or Federal Rights License. All other rights and uses except those permitted by copyright law are reserved by the copyright owner.
- DISTRIBUTION STATEMENT B.** Distribution authorized to U.S. Government agencies only (fill in reason) (date of determination). Other requests for this document shall be referred to (insert controlling DoD office)
- DISTRIBUTION STATEMENT C.** Distribution authorized to U.S. Government Agencies and their contractors (fill in reason) (date of determination). Other requests for this document shall be referred to (insert controlling DoD office)
- DISTRIBUTION STATEMENT D.** Distribution authorized to the Department of Defense and U.S. DoD contractors only (fill in reason) (date of determination). Other requests shall be referred to (insert controlling DoD office).
- DISTRIBUTION STATEMENT E.** Distribution authorized to DoD Components only (fill in reason) (date of determination). Other requests shall be referred to (insert controlling DoD office).
- DISTRIBUTION STATEMENT F.** Further dissemination only as directed by (inserting controlling DoD office) (date of determination) or higher DoD authority.
- Distribution Statement F is also used when a document does not contain a distribution statement and no distribution statement can be determined.*
- DISTRIBUTION STATEMENT X.** Distribution authorized to U.S. Government Agencies and private individuals or enterprises eligible to obtain export-controlled technical data in accordance with DoDD 5230.25; (date of determination). DoD Controlling Office is (insert controlling DoD office).

USAWC RESEARCH ELEMENT  
(Thesis)

A Strategy for Imposing Repressive Economic  
Measures Against Communist China

by

Colonel Harlan C. Stine  
Armor

US Army War College  
Carlisle Barracks, Pennsylvania  
8 April 1966

## TABLE OF CONTENTS

	Page
SUMMARY . . . . .	iii
CHAPTER 1. INTRODUCTION . . . . .	1
2. THE ECONOMY OF COMMUNIST CHINA . . . . .	3
Economic theory . . . . .	3
Economic development . . . . .	7
Outlook in 1964 . . . . .	26
Foreign trade . . . . .	27
Summary . . . . .	32
3. REPRESSIVE ECONOMIC MEASURES . . . . .	33
Economic intelligence . . . . .	33
Export and import controls . . . . .	34
Embargoes . . . . .	35
International trade policies . . . . .	35
Impounding foreign-held assets . . . . .	37
Preclusive buying . . . . .	38
Dumping . . . . .	38
Foreign aid . . . . .	39
4. CONCLUSIONS . . . . .	42
Summary . . . . .	48
BIBLIOGRAPHY . . . . .	50

## SUMMARY

The Communist Chinese economy is considered by the leadership as one of the tools for the attainment of greater national power through industrialization and self-sufficiency. In their ideology the economy is subordinated to the achievement of political objectives so that it is subject to strict central planning and strong controls at the highest level.

Since the establishment of the People's Republic of China in 1949, the regime embarked on a forced-draft program of socialization and industrialization. Gains in some sectors were rapid and impressive until the economic crisis in 1959-60, and since that time economic emphasis has been aimed at reconstruction and readjustment based on priorities designed to support the agricultural sector. By 1964, the economy had largely regained its lost ground, and the leaders are again thinking in terms of long range, planned growth and expansion.

The economic crisis and ideological rift with the Soviet Union caused a reorientation of China's foreign trade and a shift from major imports of industrial plants and machinery in support of heavy industry to food grains as the chief item of import. However, this trend still reflects the goal of self-sufficiency even though import policies now give emphasis to support of agriculture.

The present status of China's economy and the position and responsibility of the United States with respect to the world economy dictates the use of only those repressive economic measures aimed at political and economic isolation of Communist China. A direct, overt assault on the Chinese economy would also have devastating and far-reaching effects on the economy of the entire world.

The United States must implement foreign trade policies aimed at the political and economic stabilization of the world in general and the emerging, underdeveloped countries in particular. Improved collection and dissemination of economic information would assist. These policies must be positive, aimed at promoting greater mutual economic cooperation among Western States, and strive for the betterment of world-wide living standards. Because of the political and social ideology of Communist China, all of these objectives would also provide secondary benefits resulting in the increased isolation of China.

## CHAPTER 1

### INTRODUCTION

China is not a good economic model because true, informative, and sound economic information is not made available. The only worthwhile information is gained by a student with a knowledge of Chinese and a willingness to spend years combing journals and newspapers for bits and pieces of information.<sup>1</sup>

There is a divergence of opinion as to the true worth, in the long run, of any efforts directed toward economic warfare in times of peace, that is, under conditions other than armed conflict.

One theory compares economic warfare to a weapon whose cutting edge is dulled through use. The use of repressive measures under other than wartime conditions forces a country to move along the path toward self-sufficiency and to develop alternate sources of needed materials. Supposedly, this puts their economy on a better basis to face wartime conditions.<sup>2</sup>

On the other hand, the opposing camp feels that economic warfare is a means that should be used by a nation to compete in obtaining the use of resources of neutral countries. Further, it is an indispensable method of drawing neutral nations away from the sphere of influence of an opponent.<sup>3</sup>

---

<sup>1</sup>Dwight H. Perkins, "China's Impact on the Third World," The Correspondent, No. 35, Autumn 1965, p. 75.

<sup>2</sup>James R. Schlesinger, The Political Economy of National Security, pp. 138, 139.

<sup>3</sup>Yuan-li Wu, Economic Warfare, pp. 316, 317.

Both schools of thought are agreed, however, that repressive measures must, first and foremost, be specifically tailored to existing conditions. Further, they must be dynamic, to move and progress with economic conditions which certainly will not remain static.

In this paper, chapter 2 studies the Communist Chinese economy but only in sufficient depth to look for trends indicating strengths and weaknesses affecting the ability to react to repressive economic measures. Chapter 3 is a discussion of the major repressive economic measures that could be employed against China; however, this study does not consider those means that could be considered as an act of war, such as, a naval blockade. Neither does it give any consideration to covert measures, such as, counterfeiting money or rewards for sabotage. Chapter 4 contains certain conclusions and ends with a recommended strategy for imposing repressive economic measures against Communist China.

In conducting research on China's economy, only unclassified sources were consulted. There is much suspicion of any officially published statistics that China has issued and, in fact, there have not been any issued since the initial estimates on some phases of 1959 operations that were released in early 1960. However, the work done by recognized authorities and students in this field has produced results that made it possible to identify the trends being sought.

## CHAPTER 2

### THE ECONOMY OF COMMUNIST CHINA

This chapter is not to be an intensive, thorough, and detailed study of the economy of the People's Republic of China. The objective is an orderly study of just sufficient depth to identify trends that can reasonably be expected to project into the future, weaknesses that would be particularly vulnerable to economic attack, and strengths that would serve to negate repressive economic measures.

Any analysis of the economy must be undertaken with a clear picture in mind of what part the economic theories of the Communist Party chiefs play in their ideologies for ruling the People's Republic of China. With this clearly established, it is possible to make a meaningful review of the economic development to date, consider the dominating aspects of China's foreign trade, and arrive at some conclusions regarding the outstanding strengths and weaknesses of the economy.

#### ECONOMIC THEORY

The economic theories practiced by the leaders of Communist China are best explained by the fanaticism the leaders feel for the ideology or dogma that "politics leads and commands everything else."<sup>1</sup> Mao Tse-tung's interpretation of Marxist-Leninist doctrine forms the

---

<sup>1</sup>Ralph L. Powell, "Commissars in the Economy," Asian Survey, Vol. V, No. 3, Mar. 1965, p. 125.

the basis of all Party policies, and his fanatical worship of this political concept, therefore, makes it just as applicable to economic development as for any other aspect of life under communism. Since the overriding goal of the Communist leaders is political, it follows that the economic system and programs must adhere to and support the Socialist or Communist doctrines.<sup>2</sup>

The Communist leadership is striving to establish a Socialist and, eventually, Communist society and to attain greater national power through industrialization and self-sufficiency. By their ideology, the national goals set by the Communist Party are supreme, and all activities are subordinated to these ends. This inevitably leads to an economy for China that is a planned, socialistic system dedicated to the rapid economic development of the country on a relatively self-sufficient basis for the principal purpose of providing the national power that is so greatly desired.<sup>3</sup>

In the minds of the leaders, economic development is practically synonymous with industrialization, and they particularly regard a large base of heavy industry as the all-rewarding status symbol of national power that must be attained as quickly as possible. In accordance with their ideology, the only way this status can be attained is through complete and all-inclusive state, or party, control of the economy.<sup>4</sup>

---

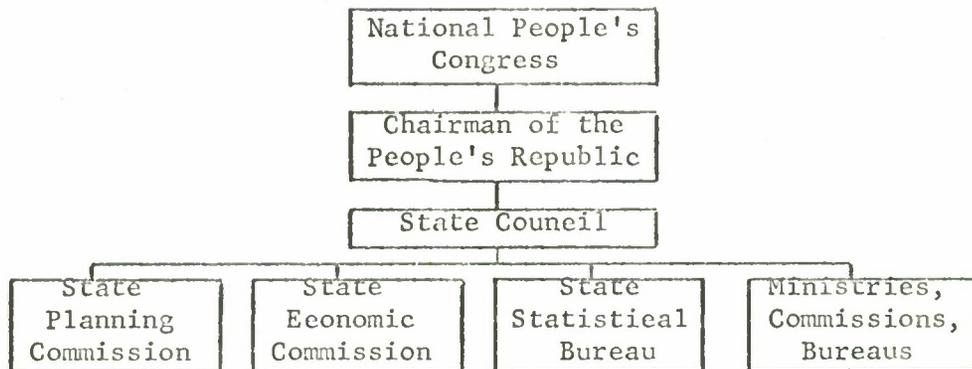
<sup>2</sup>Yuan-li Wu, The Economy of Communist China: An Introduction, p. 5.

<sup>3</sup>Ibid., pp. 3, 8.

<sup>4</sup>Wen-ching Tseng, The Socialist Industrialization of Communist China, pp. 1-2.

The Chinese Communist Party leaders used the Soviet Union's industrialization as a model but employed their own brand of totalitarian political control as a major tool. The achievement of an objective such as they visualized demanded an ambitious program based on strict regulatory controls on the rate of investment and the allocation of resources and the elimination of all competing economic factors. The only answer to their needs within their political concepts was complete, detailed economic planning, to be followed by strict implementation of the plans.<sup>5</sup>

The Chinese leaders have established an economic planning system that ensures complete centralized control over all operations of the national economy and its subordination to the political objectives of the Chinese Community Party.



Source: Chang-tu Hu, China, p. 223.

Figure 1

---

<sup>5</sup>Wu, op. cit., pp. 8-9.

The Chairman of the People's Republic shares with the National People's Congress the complete exercise of state authority. Further, the Chairman has been vested with the independent power of personal supervision and control of the State Council.<sup>6</sup>

The State Planning Commission is responsible for planning the long-run economic development of the country. It prepares the national economic plan (five-year and longer-term plans) and appraises, revises, and integrates the partial plans submitted by government ministries and local governments. In addition, it formulates planning procedures and standards and also evaluates the results of the plan implementation.<sup>7</sup>

The State Economic Commission prepares the annual plans within the guidance provided by the five-year or longer-term plans from the State Planning Commission. It then is responsible for directing the implementation and appraising the results of these annual plans. Further, it bears the important responsibility of maintaining the balance in the allocation of materials among the central and local government controlled enterprises.<sup>8</sup>

The State Statistical Bureau gathers information and provides the data used by the planning agencies in making their plans and evaluating the results achieved by the operating agencies in carrying out the plans. This bureau collects information from all

---

<sup>6</sup>Chang-tu Hu, China, p. 221.

<sup>7</sup>Wu, op. cit., p. 32.

<sup>8</sup>Ibid., p. 32.

government ministries and activities. It then controls and supplies the basic national statistics. It also is supposed to provide for unified statistical reporting and to supply statistical information to the authorities at various levels of government.<sup>9</sup>

The ministries and commissions are the operators; they direct and supervise the running of the government. These agencies must ensure that everything that happens within the operations of the government are in complete accord with plans and policies of the State Council which, of course, reflect the aspirations and ideology of the Chinese Communist Party through the power wielded by the Chairman of the People's Republic.<sup>10</sup>

This is the economic planning organization that controls the development and destiny of the People's Republic. This is the organization that produces an economic program that demands sacrifice, austerity, and hard work from the Chinese people in exchange for impersonal national aims and promises of economic rewards at some time in the future. They produce programs, characteristic of totalitarian states, which focus on national power rather than the welfare of the people.<sup>11</sup>

#### ECONOMIC DEVELOPMENT

When the Communist regime established the People's Republic of China in 1949, they inherited an economy that was chaotic and

---

<sup>9</sup>Ibid., p. 28.

<sup>10</sup>Hu, op. cit., p. 224.

<sup>11</sup>A. Doak Barnett, Communist China and Asia, p. 51.

confused as a result of war and a run-away inflation.<sup>12</sup> There existed practically no modern industry or technology other than a small industrial base consisting primarily of a few heavy industries built by the Japanese in Manchuria and a few light consumer-goods industries located chiefly in several coastal cities, such as, Shanghai and Tientsin. The productive output level of industry was extremely low as was to be expected because of the existing chaos and the removal of machinery and equipment by the Soviet Union in 1945.<sup>13</sup>

#### 1949-1952

The period of 1949-1952 is often referred to as the period of reconstruction. The Communist regime placed all emphasis on the rehabilitation of the economy and the consolidation of absolute political control of the country. Initially they moved cautiously and were fairly successful in achieving stabilization and order in the economy.<sup>14</sup>

The initial economic success of the regime can be attributed to: first, the country was so disorganized that a substantial improvement in productivity could naturally be expected as soon as

---

<sup>12</sup>Ta-chung Liu, and Kung-chia Yeh, The Economy of the Chinese Mainland: National Income and Economic Development, 1933-1959, p. 10.

<sup>13</sup>Hu, op. cit., pp. 360, 361.

<sup>14</sup>Liu and Yeh, op. cit., pp. 10-11.

any stable government was established.<sup>15</sup> Second, a price stabilization program was initiated that was successful in curbing inflation. Monetary and fiscal reforms were carried out through normal economic methods with just an appropriate touch here and there of political coercion.<sup>16</sup> Third, and extremely important, was the general attitude of moderation toward private business where the Communists openly talked of long periods of coexistence between state and private enterprise.<sup>17</sup> This succeeded in relieving the urban population's feelings of anxiety and uncertainty and helped to stimulate productivity.

During this period, the leaders were successful in controlling inflation, reviving industrial production, rehabilitating the transportation system, and reviving domestic trade.<sup>18</sup>

The reconstruction period also saw the beginning of the Communist Party's social revolution and the consolidation of political power. In line with the policy of moderation toward private enterprise and the urban population, the Party's first efforts were toward agrarian reform, and in June 1950 the leaders carried out a program of land distribution. The distribution of land to the peasants was accompanied by an intensive campaign of propaganda, mob trials, and mass executions for the liquidation of the landlords and rich peasants.

---

<sup>15</sup>Colin Clark, "Economic Growth in Communist China," China Quarterly, No. 21, Jan.-Mar. 1965, p. 148.

<sup>16</sup>Hu, op. cit., p. 280.

<sup>17</sup>Barnett, op. cit., p. 39.

<sup>18</sup>Hu, op. cit., p. 280.

This move was aimed at eliminating the traditional village leadership which was immediately taken over by politically reliable Communist cadres.<sup>19</sup>

In late 1950, the government promulgated regulations that would control the scope of operations, production, profit distribution, and labor relations of private business, still without any outright hostility toward private business. The regime also established State trading organizations that engaged in buying and selling operations so that the government became, for all practical purposes, the sole marketing agency and the controller of all means of distribution of the fruits of production.<sup>20</sup>

By 1951, the Communist regime was ready to carry forward the socialization of the urban population. They began with the "three-anti-movement" against the government workers and employees of public enterprises. It was alleged that the employees' dishonesty, waste, and inefficiency were hampering the Korean War effort. This campaign was used to purge the remaining officials of the former regime and to discipline or eliminate certain undesirable party members.<sup>21</sup>

Supplementing this movement, in 1952 the government launched the "five-anti-movement" that was aimed at the elimination of undesirable businessmen and to accomplish a large-scale nationalization

---

<sup>19</sup>Ibid., p. 281.

<sup>20</sup>Liu and Yeh, op. cit., pp. 13-14.

<sup>21</sup>Ibid., p. 15.

of private business. Private firms were supposed to be guilty of (1) bribery of public officials, (2) tax evasion, (3) theft of public assets, (4) fraud in fulfilling government contracts, and (5) theft of government information. The continued operation of private business became so difficult that many businessmen succumbed to the persecution and intimidation and accepted joint state-private ownership, while all came under the close surveillance and control of the government.<sup>22</sup>

The close of the period of reconstruction at the end of 1952 found the government controlling credit, wages, prices, the allocation of raw materials, and the sale of most items of production, with practically all vestiges of the private direction of business effectively eliminated.

#### First Five-Year Plan (1953-1957)

Communist doctrine for establishing a Socialist state calls for the operation of a completely planned economy.<sup>23</sup> As the reconstruction period was drawing to a close, the amount of political control that had been achieved and the stability that had been attained in the economy led the Communist leaders to believe that it was appropriate to begin thinking in terms of a long-range development program and to begin working on an economic plan.<sup>24</sup>

---

<sup>22</sup>Ibid.

<sup>23</sup>Ying-chieh Yang, "Several Problems in Current Planning Work," Economic Planning in Communist China, p. 4.

<sup>24</sup>Barnett, op. cit., p. 40.

In 1952 the Party clearly announced its twin goals of socialization and industrialization when it brought forth its "General Line" to cover the period of transition to socialism. This general line was to provide the guidance needed to build a socialistic, planned economy that would be able to achieve their goal of industrialization.<sup>25</sup>

The first five-year plan was started in 1953, although it was not officially announced as such until 1955.<sup>26</sup> This plan was an undisguised, emphatic, ambitious bid for the expansion of heavy industry. It was patterned on the Stalinist model and called for overall state planning, socialization, and high levels of state investment. The consumer had to bear the brunt of austerity while the country's resources and energies were channeled into building industry at the fastest possible rate.<sup>27</sup>

Perhaps the best indicator of the Communist approach to economic development and the scale of priorities they used in directing the economy is the record of state, or capital, investment. Figure 2 shows a comparison between the net domestic product and the net

DOMESTIC INVESTMENT, 1953-1957  
(billions of 1952 yuan)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Net Domestic:					
Product	75.33	79.28	82.30	92.08	95.34
Invest	15.45	16.74	18.04	20.39	20.61

Source: Liu and Yeh, op. cit., pp. 94,110.

Figure 2.

<sup>25</sup>Yang, op. cit., p. 5.

<sup>26</sup>Liu and Yeh, op. cit., pp. 15-16.

<sup>27</sup>Tseng, op. cit., pp. 14-15.

domestic investment. Further, the emphasis placed on industrialization is highlighted by the fact that 58.2% of this capital investment was channeled into industrial development and at a ratio of 7:1 in favor of heavy industry over light industry.<sup>28</sup>

This approach to economic development is also typical of the Communist drive toward the goal of self-sufficiency. The growth of heavy industry based on steel, machine tools, electric power, coal, petroleum, basic chemistry, and other base metals then provides the foundation for the production of the machinery and equipment needed in all other sectors of the economy.<sup>29</sup> The goal of the program was to build for the future rather than to meet the immediate consumer needs of the people. As the amount of capital investment being poured into industry increased, the levels of consumption became more and more stringent. There are several years (1953-1955) during this first five-year plan when the per capita consumption was below what was considered to be the minimum subsistence level.<sup>30</sup>

With this concentration of effort, the rate of industrial and overall growth was very impressive. It was far above the rate of growth in the majority of the underdeveloped nations, and most of this growth contributed directly to the enhancement of industrial power. During the period of this plan, the annual output of many

---

<sup>28</sup>Tseng, op. cit., p. 56.

<sup>29</sup>Ibid., pp. 16-19.

<sup>30</sup>Wu, op. cit., p. 90.

of the basic heavy industries doubled or tripled, while the total industrial production rose by approximately 94%. The net domestic product increased at an annual average rate of about 7%; for 1957 it<sup>31</sup> totaled 95.34 billion yuan (constant 1952 prices).

During the last year of the plan, 1957, indications had begun to appear that the industrialization program was losing its momentum, and it became clear that the agricultural sector was lagging behind the rest of the economy. The total agricultural output had increased modestly but not enough to keep up with the population growth. In 1957 the absolute agricultural output was 9% above the 1952 level, whereas, on a per capita basis it was 3% below the 1952 level. It appeared that agriculture was acting as a drag on further economic expansion.<sup>32</sup>

In 1953 the Communist regime had begun the task of socialization of the peasants. The first efforts were to organize the peasants into mutual aid teams to pool their efforts to render mutual assistance during the busy seasons. This did not upset the peasants too much, and it actually proved beneficial in many instances, since the peasant still owned and had the use of the land he had been given back in 1950.

Near the end of 1953 the regime organized agricultural producers cooperatives wherein the land, livestock, and farm implements were

---

<sup>31</sup>Liu and Yeh, op. cit., pp. 94, 220-227.

<sup>32</sup>Holland Hunter, "Estimated Chinese Growth Trends, 1952-1965," The ASTE Bulletin, Vol. III, No. 2, Summer 1965, p. 10.

pooled for joint usage by all members of the cooperative. The actual ownership of the property still remained in the hands of the peasant; even so, only a small percentage of the population became involved in this organization. In 1955 Chairman Mao began to voice criticism at the lack of progress being made in this effort, and, under the spur, renewed efforts were made toward collectivization.<sup>33</sup>

In late 1955 a new approach to cooperatives was initiated, and the first step, begun immediately, was to organize preliminary cooperatives. In this type the land became the property of the cooperative, and the peasant was entitled to a share in the income of the cooperative based on the amount of land that he had contributed. The peasant was permitted to retain for his own use a small, private plot of ground and a minor amount of farm implements and livestock. The second step, begun in June 1956, was to form the advanced cooperative. This type differed from the preliminary in that the peasant's share of the income of the cooperative was no longer determined by the amount of land he had contributed, signalling a closer approach to the socialistic-communistic "from each according to his ability and to each according to his need." By the end of 1956, 96% of the peasants were in cooperatives, with over 80% being in the advanced type.<sup>34</sup>

Concurrent with the collectivization of the peasants, the government had taken complete control of the supply and distribution of food.

---

<sup>33</sup>Liu and Yeh, op. cit., p. 16.

<sup>34</sup>Ibid., p. 17.

In 1953 they initiated a program for the planned purchase and supply of food crops. The peasant was forced to sell a certain amount of his harvest to the government who became the sole supplier of food to the urban areas. No city dweller, food store, or processor of food products was permitted to buy any food supplies directly from the peasants. Control of all foods became complete in 1955 when the government instituted the system for unified purchase and supply of food grains. In the farming areas, the government fixed the amount considered to be a normal yield, the amount of compulsory sales, and, when necessary, the amount of food that could be purchased from the government. In the urban areas, the government established strict food rationing based on the age and occupation of the individual. This system effectively eliminated the rural free markets and controlled the purchase and consumption of food in the cities.<sup>35</sup>

Thus the first five-year plan ended with impressive overall growth but with a rather critical imbalance between the growth of industry and agriculture and a similar disproportion in the production of capital and consumer goods. The nature of this economic development was recognized by many leading Communists, and one writer, no doubt under the influence of the "Hundred Flowers" campaign, sounded a warning in a Peking journal:

---

<sup>35</sup>Ibid.

The doctrine which teaches that development of agriculture and light industry is possible only if heavy industry has first been developed is debatable . . . . If in practice this "doctrine" is followed, we may gain heavy industry only to lose Man; we may even lose Man without gaining heavy industry.<sup>36</sup>

### Second Five-year Plan (1958-1962)

#### The Great Leap Forward

During the closing years of the first plan the Communist leaders were doing the preliminary work on the second five-year plan. The general pattern appeared to be a continuation of the policies of the last plan. It called for continuing high rates of investment, rapid industrial growth, and, of course, continued sacrifices and austere conditions for the consumer. The preliminary targets called for raising the national income by 50% with an average annual increase of approximately 9%. By 1962 the combined gross output of industry and agriculture were to increase by 70-75%; specifically, industrial output was to increase 100% while agricultural production was to be raised 35%. Based on the results of the first five-year plan, the objectives set for the second plan do not appear unreasonable.<sup>37</sup>

The Communist regime, still concerned with the indications of an industrial slowdown in 1957, decided to inject some innovations at the very beginning of the second plan. The leadership decided to adopt some radical new measures which they called the Great Leap

---

<sup>36</sup>Stanley Karnow, "How Communist Economics Failed in China," Fortune, Vol. LXVIII, No. 1, July 1963, p. 228.

<sup>37</sup>Barnett, op. cit., p. 46.

Forward. With much sloganeering, they proclaimed that the "leap" would compress the progress of decades into a single day. This program was supposed to revolutionize the progress in China and serve as an example to other underdeveloped countries.<sup>38</sup>

The "great leap" was predicated on two major points: first, the establishment of many small-scale, locally financed and directed industrial activities to produce both consumer and producer goods; second, the consolidation of the cooperative farms, or collectives, into giant communes that would not engage exclusively in farming. The Communist leaders felt that these two innovations would (1) mobilize available manpower and other resources for maximum mobility and flexibility; (2) economize on capital investment; (3) spread the knowledge of and training in new productive techniques and skills; (4) increase the dispersion of industry and at the same time place the production process closer to the market it was to serve; (5) increase agricultural production through greater application of labor; and (6) provide masses of labor for such special projects as irrigation, flood control, and land reclamation.<sup>39</sup>

With regard to the industrial sector, the leaders also reasoned that decentralization of administration and control of industry would eliminate some administrative handicaps and also promote

---

<sup>38</sup>Ibid.

Karnow, op. cit., p. 155.

<sup>39</sup>Hu, op. cit., p. 366.

Edward F. Szczepanik, ed., Symposium on Economic and Social Problems of the Far East, p. 39.

"activism" among the local governments. Further, they felt that when relieved of this administrative burden the central ministries could better supervise the industries still remaining under their jurisdiction and be able to concentrate more of their attention to coordinating both, the central and the local industries.<sup>40</sup>

In November 1957, the State Council issued the "Provisions Regarding the Improvement in the System of Industrial Administration." This directive transferred most industries to the jurisdiction of provinces, municipalities, and autonomous regions. For instance, in heavy industry the central ministries retained jurisdiction over only experimental and "essential" enterprises and some modern, large-scale units.<sup>41</sup>

By June 1958 about 80% of the industrial units formerly under central control had been transferred to the jurisdiction of lower administrative levels. During this same period the Communists claimed that over half a million new local industrial units were established. The new industries covered a wide range of endeavor, such as, fertilizer, farm implements, electric power, lime, mining, and smelting. It appears that the local initiative turned loose by decentralization gave a large boost to industrial production since the total industrial output for 1958 was 131% above 1952 and 37% above 1957.<sup>42</sup>

---

<sup>40</sup>Szczepanik, op. cit., p. 38.

<sup>41</sup>Ibid.

<sup>42</sup>Ibid.

Hunter, op. cit., p. 10.

In the rural areas the organization of the "people's communes" began in the summer of 1958 and went forward at a rapid pace. The spring weather promised good harvests so there was a tremendous demand for labor to till the fields at the same time that massive special projects in irrigation and water conservation were being carried out. Pushed by these needs for labor and because they could see how the system enhanced their own authority, the political cadres merged the rural collectives just as fast as they possibly could. During the summer and fall of 1958, 740,000 collectives, or cooperatives, had been merged into 24,000 communes with an average membership of 5,000 households in each. The communes were organized with communal activities, such as, kitchens, messhalls, and dormitories, that provided the peasant with food, clothing, and shelter. The theory was that the commune would provide all essentials needed by the peasant from his birth to his death; of course, private property was abolished. In November of 1958 the Chinese Communists proudly announced that 99% of the peasants were in these huge communes. Further, they loudly proclaimed that they had found the short cut to pure communism and had avoided the bloody Soviet-type collectivization.<sup>43</sup>

Under the influence of the continued good weather and the intense application of labor, 1958 appeared to be a year of bumper crops and record-breaking harvests. Several times during the year

---

<sup>43</sup>Karnow, op. cit., p. 230.

the government revised their target figures upward and began issuing communiques on the unbelievable results being achieved in agricultural production by the "great leap." For example, the planned target called for the production of 196 million tons of good grains. Later this target was raised to 212.5 million tons, and the final report of 1958 production that was released in April 1959 announced the production of 375 million tons of food grains. It was even announced by Chou En-lai in April 1959 that the 1958 production of food grains and cotton had increased 102.5% over 1957.<sup>44</sup>

In August 1959, for reasons never satisfactorily explained by the government, the State Statistical Bureau made a radical downward revision of the previously announced 1958 agricultural production statistics. The output figures of some items were reduced as much as 50%, and the value of the total agricultural product was reduced by 24%. The government gave several reasons for the large inflation and subsequent revision of these statistics, but their reasons could not stand the tests of inspection and checking. A more widely held explanation places the responsibility for the errors in statistical reporting on the shoulders of the commune cadres and the local Communist Party leaders. The pressures of the "great leap" to show production increases were so great that the local authorities could not afford to admit anything but fulfillment or overfulfillment of targeted quotas. Production figures were also used to make comparisons between local communities' efforts to achieve efficiency and

---

<sup>44</sup>Szczepanik, op. cit., pp. 25-29.

progress, inflation of production figures in one area led to increasing inflation in other areas. For a commune cadre to admit failure to meet quotas could lead to serious charges being leveled against their political reliability. There seems little doubt that these pressures not only led to inflation of statistics but also to pure fabrication in some instances.<sup>45</sup>

In spite of the statistical fiasco, agricultural production for 1958 did show a rewarding gain for the Communists. The best estimate by Western experts showed total agricultural output was approximately 21% higher than 1952; this was 12% better than 1957 production. In money value the sector output was estimated at 41.3 billion yuan in constant 1952 prices (average of high and low estimates).<sup>46</sup>

The statistical difficulties and inflated agricultural production figures carried over into 1959; however, signs of much greater and more far-reaching difficulties began to show through the statistical maze. Agricultural production was on the downgrade instead of following the fantastic growth rate planned for the second year of the "great leap." The total agricultural output was estimated at only 10% above the 1952 level, and the downward slide continued into 1960. The total output of the agricultural sector in 1960 was estimated to be 5% below the 1952 level.<sup>47</sup>

---

<sup>45</sup>Ibid., p. 27.

<sup>46</sup>Hunter, op. cit., pp. 6-10.

<sup>47</sup>Ibid., p. 10.

The Great Leap Forward had begun to fall to pieces in the agricultural sector. While some recession might possibly have been due to bad weather, the primary factors were the gross mismanagement by the commune cadre and the loss of incentive and oppression of the peasants. The peasants had undergone the socialization process since 1953; they had been formed into mutual-aid teams, cooperatives, and collectives, but the communes of 1958 proved to be more than they could stand. They fought back in the only way they knew, passive resistance, and this resistance by the peasants helped wreck agriculture.<sup>48</sup>

#### Retrenchment

In late 1960 and in 1961 the regime concentrated on major efforts to revitalize agriculture, and their first moves were directed toward relaxation of the austere conditions imposed by the communes. The size of the communes were reduced, production teams and brigades were again formed as the basic production and accounting units, production decisionmaking was returned to the peasants below commune level, peasants were given the ownership of small plots of land so that they could raise their own produce and livestock, the peasants were again paid wages in addition to their rations-in-kind, and they were compensated on a ratio more in line with the amount of work done. These procedures seemed to have an

---

<sup>48</sup>Wu, op. cit., p. 151.

Albert Ravenholt, Red China's Sagging Industry, pp. 8-10.

immediate effect, and the downward trend of agriculture was not only stopped but the total production for 1961 raised slightly to the point where it was only 3% below the 1952 level of output.<sup>49</sup>

The reduction in agricultural production was also manifested by a food shortage that reached its peak in the winter of 1960-61. The food scarcity reached such a critical point that there was probably some actual starvation, but there is no indication that it reached such catastrophic levels as had been known in the China of the past. Late in 1960, Communist leaders made the decision to begin the costly importation of food grains, and in 1961 they imported 3.6 million tons of wheat from Canada and Australia.<sup>50</sup>

The production failures and chaos in the agricultural sector also had a profound effect on industry. During 1959 and 1960 industrial growth had progressed steadily under the impetus of the 1958 reorganization, and for those two years the total industrial output was 193% and 202%, respectively, above the 1952 output. However, the full force of the failures in agriculture hit the industrial sector in 1961 when its total output dropped to a point where it was only 26% above the 1952 level.<sup>51</sup>

The industrial setback in 1961 was attributable to several factors; first, industry was extremely hard hit by the reverses suffered in agriculture because (1) agriculture provided raw materials,

---

<sup>49</sup>Wu, op. cit., p. 152.

Hunter, op. cit., p. 10.

<sup>50</sup>Karnow, op. cit., p. 235.

Hsiang-kao Kao, Chinese Communist Foreign Trade and Diplomacy, p. 62.

<sup>51</sup>Hunter, op. cit., p. 10.

such as cotton and tobacco, for light industry; (2) the exportation of surplus agricultural products had provided the foreign exchange needed to buy machinery, equipment, spare parts, and many materials needed by industry; and (3) it became necessary to use much of the scarce foreign exchange to import foodstuffs to feed the urban population and workers.<sup>52</sup>

Second, because of an ideological split with the USSR in the summer of 1960, the Sino-Soviet rift, the Soviet Union ceased all aid programs and long-term loans for the People's Republic. In addition, they withdrew all of their technicians, specialists, and experts from China. According to Chinese reports, this meant the loss of 1,390 specialists working in 250 enterprises and the scrapping of 257 scientific and technical projects. The Chinese reported further that this action has seriously disrupted their original economic plan.<sup>53</sup>

Third, early in 1961 a decision was made which changed the economic policy of Communist China. The new economic policy completely rearranged the emphasis to give priority to agriculture, light industry consumer production, and heavy industry in that order. This reorientation of policy called for: (1) a period of recoupment and readjustment of the national economy (in which all long-range planning was quietly dropped), (2) a drastic reduction in capital

---

<sup>52</sup>A. Doak Barnett, Communist China in Perspective, p. 59.

<sup>53</sup>Wu, op. cit., p. 188.

investment rate (especially industrial investment), (3) continued development of those branches of industry which supported agriculture, (4) emphasis on the improvement of product quality, and (5) strict and faithful observance of the "economic accounting" system.<sup>54</sup>

#### OUTLOOK IN 1964

There is no doubt that the ill effects of the "great leap" will be felt in the economy for years; however, the new economic policies began the "work of readjustment." Both agricultural and industrial output began a steady upward climb in 1962 that continued on through 1963 and 1964. According to the statistics available, agricultural production for those years were 6%, 7%, and 15%, respectively, above 1952 output; industrial production for the same years was 68%, 89%, and 110%, respectively, above the 1952 production level.<sup>55</sup> The Net Domestic Product for 1964 is shown in Figure 3.

#### OUTPUT BY SECTOR--1964

	<u>Billions of 1952 Yuan</u>	<u>Billions of US Dollars<sup>a</sup></u>
Agriculture	39.2	16.7
Industry	27.1	11.6
Trade	12.1	5.1
Transport	6.8	2.9
Construction	5.0	2.1
Government	9.1	3.9
Services	6.0	2.6
Work Brigades	<u>2.7</u>	<u>1.1</u>
Net Domestic Product	107.5	45.9

<sup>a</sup>Converted at the 1952 value of the yuan, \$1.00=2.343 yuan.

Sources: Hunter, op. cit., p. 8; Liu and Yeh, op. cit., p. xxiv.

Figure 3.

<sup>54</sup>Ibid., p. 123.

Yuan-li Wu, "China's Economy and Its Prospects," Current History, Vol. 47, No. 277, Sep. 1964, pp. 166-168.

<sup>55</sup>Hunter, op. cit., p. 10.

The reports of visitors returning from China confirm that economic conditions have improved, and that the ravages of the 1959-60 disaster have been repaired. Further, the statement by Chou En-lai that the third five-year plan would begin in 1966 shows a return to long-term planning that is indicative of a resurgence of confidence. However, the preliminary announcements Chou has made concerning 1965 production and the new five-year plan indicate that the Chinese Communists are now moving with care and caution in their approach to economic growth.<sup>56</sup>

#### FOREIGN TRADE

One economist made the statement that,

Inevitably, trade is fraught with strategic implications . . . . The existence of a significant volume of trade provides one state with a weapon for influencing the policies of another power.<sup>57</sup>

There is no intent to dispute the validity of this statement, but there are many conditions or situations in a country's economy or foreign trade policies which do much to establish the relative imperviousness or susceptibility to outside influence. For this reason, a separate review is made of the foreign trade of Communist China.

---

<sup>56</sup>Robert Keatley, "Red China's Economy," Wall Street Journal, Vol. CLXV, No. 87, 5 May 1965, p. 16.

Yuan-li Wu, "Communist China's Economy: Critical Questions," Current History, Vol. 49, No. 289, Sep. 1965,

<sup>57</sup>James R. Schlesinger, The Political Economy of National Security, p. 135.

In studying the trade of Communist China we must again bear in mind one of the basic dogmas in the ideology of Mao Tse-tung, "politics leads and commands everything else." This guiding doctrine was emphasized when in August 1962 Chou En-lai is reported to have told a Japanese trade group that "trade and politics are inseparable."<sup>58</sup> The strong political implications contained in all of their economic activity suggests that the Communist Party would take steps to ensure strong control and supervision by the central government over all trade and trade relations.

From the founding of the Communist regime in late 1949, the import and export trade has been under strict government control. This control is exercised by the State Council through its Ministry of Foreign Trade. The ministry wields complete control over all administrative agencies and specialized trading corporations which are the only firms authorized to engage in either import or export operations. The body of rules to be followed were announced by the State Council in their "Unified Regulations Governing Foreign Trade," published on 10 March 1950.<sup>59</sup>

China's overriding aim of rapid industrialization was reflected in her foreign trade. This trade consisted principally of exchanging her agricultural and rare mineral products for foreign-made machinery, equipment, materials, and even complete plants to expand the industrial

---

<sup>58</sup>Powell, op. cit., p. 125.

Kao, op. cit., p. 2.

<sup>59</sup>Ibid., p. 3.

sector. For instance, during the first five-year plan, 80% of the total value of imports from the Soviet Union consisted of industrial machinery and equipment. Further, they followed the Communist doctrine of striving for self-sufficiency as was clearly shown by the fact that, in 1959, 33.3% of the imports from Russia consisted of complete industrial plants. This urge for self-sufficiency is still evident since in 1964 they ordered a complete oil-cracking and olefin separation plant from West Germany, refineries from Italy and France, and conducted negotiations with France concerning purchase of a truck manufacturing plant. In 1965 they were to receive delivery of chemical fertilizer plants from Great Britain and Italy.<sup>60</sup>

Communist ideology is also reflected in the orientation of China's foreign trade for the period through 1960. Her trade was conducted primarily with other Communist countries except in cases where the product to be imported was scarce or not available in the Communist bloc. This orientation of China's trade reached its peak in 1955 when 75% of her total trade was with other members of the Communist bloc.<sup>61</sup>

However, it is also obvious that during the 1950's, and later, China used trade for political purposes. Trade agreements were

---

<sup>60</sup>Ibid., p. 44.

Pauline Lewin, The Foreign Trade of Communist China, pp. 15-46. US Library of Congress Legislative Reference Service, A Background Study on East-West Trade, p. 63.

Brian Heenan, "China's Petroleum Industry," Far Eastern Economic Review, Vol. XLIX, No. 13, 23 Sep. 1965, p. 566.

Keatley, op. cit., p. 16.

<sup>61</sup>US Library of Congress, op. cit., p. 63.

reached with West European countries that were a result of trade offensives begun in 1952 and directed against the embargo imposed as a result of the Korean War. China's aim was to weaken the relations between the United States and her West European allies. Her attempts brought a further break in the embargo when, in May 1957, Great Britain began relaxing the terms of the embargo; this policy was quickly followed by other West European countries, and the volume of China's trade rose in essential industrial products. Another typical example is the economic penetration made in Japan because of Japan's search for new markets following her rapid industrialization after World War II. China made no effort to disguise her attempts to utilize existing and expiring trade agreements to coerce Japan into establishing diplomatic relations.<sup>62</sup>

In 1961 China made some major changes in her foreign trade because of the Sino-Soviet ideological rift and the economic catastrophies of 1959 and 1960. The shift of priority in the economy to supporting agriculture practically eliminated the imports of heavy industrial machinery and other capital goods that formerly were the leading products; the major import now became food grains. At the same time, Communist China began shifting her foreign trade away from the Soviet bloc and more toward the free world nations. Further, she apparently gave a high priority to repayment of loans and debts with

---

<sup>62</sup>Kao, op. cit., pp. 2, 21-26.  
Szczepanik, op. cit., p. 107.

Russia and the other East European countries. These actions were designed to reduce or eliminate China's economic dependence on the Soviet Union and to develop multilateral relations with non-Communist states.<sup>63</sup>

It is estimated that, at least for the immediate future, China's major imports will be food grains, chemical fertilizers and fertilizer plants, and wool and cotton for her textile industry to capitalize on cheap labor. Major exports will continue to be primary products such as agricultural products and foodstuffs (export high priced foods and import low priced grains), minerals and rare metals, and textile products.<sup>64</sup>

FOREIGN TRADE OF COMMUNIST CHINA  
(Millions of US Dollars)

	<u>Imports</u>		<u>Exports</u>	
	<u>1957</u>	<u>1963</u>	<u>1957</u>	<u>1963</u>
Free World	560	780	530	725
Communist States	865	410	1,070	800
Total <sup>a</sup>	1,430	1,190	1,595	1,525

<sup>a</sup>Columns will not add due to rounding to nearest 5 million.

Source: US Library of Congress, op. cit., p. 67.

Figure 4.

---

<sup>63</sup>US Library of Congress, op. cit., pp. 64-65.

<sup>64</sup>Kao, op. cit., pp. 44-68.

## SUMMARY

In summary, the major strengths that would assist Communist China to minimize the hardships resulting from repressive economic measures are, first, the strong, centralized control exercised by the government over the economy. This permits maximum speed and flexibility in shifting emphasis, changing priorities, and taking other actions to meet the needs of the developing situation. Second, China's basic desire for industrialization creates a potential market for the market-hungry industrial nations like Japan and Western Europe. Third, one of China's driving urges has been continually to increase her self-sufficiency. This has been reflected in the large portion of imports that have been devoted to the acquisition of complete industrial plants and the development of her own resources, such as petroleum.

Major weaknesses are, first, an ideology that will not permit the employment of the most effective measures to strengthen the economy if they do not conform to Communist political doctrine. Second, China's major exports are consumer goods that can be readily supplied to foreign markets by many other countries.

## CHAPTER 3

### REPRESSIVE ECONOMIC MEASURES

In considering repressive economic measures, economic warfare, it is not intended to give any time to those activities which would be considered as "acts of war." There is little doubt that an active naval blockade aimed at the interruption of a state's foreign trade would be sufficient justification for a declaration of war. Such methods of economic repression are not within the scope of this study. Only those measures will be discussed which could be used under presently existing world conditions to decrease trade or weaken the economy of Communist China.

### ECONOMIC INTELLIGENCE

One of the vital elements in conducting any campaign, economic or military, is intelligence, or perhaps a better word to use would be information. It is essential to have good economic intelligence about the state that is to be subjected to the economic campaign so that, first, a correct assessment can be made of the strengths and weaknesses to decide the proper repressive measures to employ. Second, a judgment must be made of the amount of success being achieved; third, it is necessary to know the countermoves the opponent is making; and fourth, decisions must be made regarding the future measures to be employed.<sup>1</sup> Also, it is necessary to have

---

<sup>1</sup>George A. Lincoln, ed., Economics of National Security, p. 463.

sufficient information to be able to estimate the effects of the measures on the remainder of the world.

Communist China has not issued any meaningful economic statistics since their initial estimates of 1959 year-end achievements that were announced in early 1960. However, the well-known use of everything available, including published statistics, to support their incessant propaganda offensive, makes even their officially published figures open to question. Therefore, it is extremely important to ensure that every source of information, to include interviewing refugees and monitoring provincial radio broadcasts, is carefully studied to glean every last bit of economic intelligence.<sup>2</sup>

#### EXPORT AND IMPORT CONTROLS

The intent of export and import controls is to exert as much influence as possible to interrupt or reduce the foreign trade of the target state. Usually as a first step, a country will control its own foreign trade so as to ensure that none of its goods or services are exported to the target state, and also, imports are controlled so that it will not be a market for the products of the opponent. This procedure must be carefully studied to make certain that the possible loss and redirection of our trade does not produce more disadvantages for our economy than it does for our opponent. In a state such as ours, where foreign trade is conducted by individuals

---

<sup>2</sup>Edward F. Szczepanik, ed., Symposium on Economic and Social Problems of the Far East, pp. 33-34.

and private firms, such controls are normally handled by the establishment of a government agency with the authority to issue export and import licenses or permits.<sup>3</sup>

### EMBARGOES

Embargoes are further extensions of a state's trade controls aimed at diminishing an opponent's foreign trade. In this instance, other states of the world are asked to join in a concerted movement to establish trade controls against the target country or bloc in order to complete its isolation from supplies of vital materials and products. An embargo may be accomplished through a system of voluntary agreements between states or by action or resolution of an international organization. In either case, the effectiveness of the "paper blockade" is based entirely on the voluntary measures and self-policing policies of the individual participating countries.<sup>4</sup>

### INTERNATIONAL TRADE POLICIES

There are many normal, orthodox measures that a country, especially a great economic power, can employ to influence the flow or direction of international trade. Any policy that can have an effect on world trade can be used to a certain extent by a determined state to either strengthen its own economy or to weaken the position of an

---

<sup>3</sup>Lincoln, op. cit., p. 465.

<sup>4</sup>Norman J. Padelford and George A. Lincoln, The Dynamics of International Politics, pp. 428-430.

opponent.<sup>5</sup> It is impossible to discuss all of them, but a few of the major ones should be enumerated.

Tariffs and "favored-nation" positions are the more familiar devices for influencing international trade. They can be employed selectively by product or by state and are quite frequently used as a bargaining agent in negotiations or retaliations. The lowering of tariffs imposed on the imports from a state would place its products in a more competitive or favored position with respect to its price in the market place and could be expected to increase the economic advantage of imports from that country. Conversely, the raising of tariffs would act to the disadvantage of the imported products and be detrimental to the economic position of the exporting state. The use, or threatened use, of these restrictive measures can be used as a lever to influence the policies, economic and political, that the exporting state implements with respect to a third state (the true target of your repressive measures).<sup>6</sup>

Trade agreements can be made with another country with the intention of securing its exports and, of course, restricting its exports to your opponent. They are usually arranged through negotiations that may be influenced by many factors or pressures, including those discussed in the preceding paragraph. However, the trade agreements are a formal acknowledgment of promises made by the negotiating

---

<sup>5</sup>Thomas C. Schelling, International Economics, p. 490.  
James R. Schlesinger, The Political Economy of National Security, p. 135.

<sup>6</sup>Padelford and Lincoln, op. cit., pp. 409-413.

states and are of a more binding nature than the simple action or reaction to pressures such as tariffs.<sup>7</sup>

Quantitative controls, or import quotas; boycotts; and black-listing are measures that can be applied against a state, one or more individual firms, or specific products. They are designed to limit, reduce, or halt the importation into a state, the products of another state or business firm on very short notice. Since they place actual controls on imports, they are more restrictive than tariffs which only hamper imports but still leave the final decisions to the exporting state. These measures are usually employed as retaliatory restrictions or as coercive pressures for negotiations or accession to certain desires with respect to policies.<sup>8</sup>

#### IMPOUNDING FOREIGN-HELD ASSETS

Impounding assets is a method of preventing any financial, commercial, or other transactions involving assets of a specified foreign country without a specially issued license. Such assets may consist of bank deposits, earmarked gold reserves, securities, and investments. The controls placed on their use are designed to prevent utilization in transactions that would be detrimental to the interests of the state imposing the restrictions. Impounding assets is considered a very serious step in international relations, and there must be a

---

<sup>7</sup>Lincoln, op. cit., p. 468.

Schlesinger, op. cit., pp. 136-137.

<sup>8</sup>Padelford and Lincoln, op. cit., p. 411.

Schelling, op. cit., p. 506.

very careful study of the comparative disadvantages before exercising such strong controls against any state other than the specific state that is the target of the economic campaign.<sup>9</sup>

#### PRECLUSIVE BUYING

Preclusive buying, sometimes called preemptive buying, consists of buying the available quantities of a commodity on the world market in order to deny them to the opposing state. Since the purchasing is not necessarily based on need for the commodity but rather to deny its purchase by another state, this is an extremely expensive procedure. The artificial demand that is created by the purchases of an unceded product, and the two states bidding against each other in the market place to secure existing stocks of the product, very quickly inflate the price out of proportion to its real value. This makes it more expensive as time progresses and is very disruptive to normal world markets. Preclusive, or preemptive, buying is usually a last resort that is used only in extreme cases of a rare or scarce commodity, and then only after all other measures, such as trade agreements, have failed.<sup>10</sup>

#### DUMPING

Dumping is a procedure for intentionally flooding the market with quantities of a commodity far in excess of normal demand. This

---

<sup>9</sup>Lincoln, *op. cit.*, pp. 474-475.

<sup>10</sup>*Ibid.*, p. 473.

is designed to disrupt normal world markets and greatly depress the price of the specifically selected commodity which would be one of the major exports of the target state. Depressing the price of a major export commodity sharply reduces the amount of foreign exchange earned by the opponent and places him in the position of selling his product for less than it costs him to produce it. This procedure is also extremely disruptive to sources of production in states other than the target state. Further, it is also very expensive because all of the quantities of the commodity being dumped on the market are being sold at a price below the cost of production.<sup>11</sup>

#### FOREIGN AID

Economic assistance in the form of loans and grants has become an increasingly more important weapon for use in the cold war struggle. This is especially true with respect to assistance being offered to the newly emerging, underdeveloped countries. Quite frequently it is being offered with the collateral purpose of trying to decrease the influence of the opponent in the contested area. The judicious use of foreign aid can help create a more favorable international environment. Specifically, aid can strengthen our allies and friendly neutrals so that they will be less susceptible to the influence of an opponent; aid can be used to draw more nations into our orbit of influence, thus serving to increase the isolation

---

<sup>11</sup>Padelford and Lincoln, op. cit., p. 430.

of the opponent. It is also possible to obtain for our own benefit the developing markets and new sources of raw materials, at the same time denying them to the opponent.<sup>12</sup>

Economic assistance can be used in several ways, first, it is a means for economic and political penetration. Along with loans or grants will go businessmen, specialists, technicians, and administrators who must always keep in mind that there are secondary objectives to be attained, even though there may be no official strings attached to the aid. Second, the normal trade and commercial contacts brought about by the assistance programs could lead to trade agreements in addition to their primary function of stabilizing and developing the economy. Third, assistance in improving literacy, education, technical skills, and other social reforms should emphasize the social and cultural reforms necessary for the development of a modern, progressive economy. Also, this will place the country in a better position to judge for itself which form of political philosophy is most advantageous to its freedoms and well-being.<sup>13</sup>

A word of caution must be voiced concerning attempts to use foreign aid, or any other measures, to exert influence on the policies of other states. The newly independent, emerging nations have for years been living with the effects of "colonial exploitation"

---

<sup>12</sup>Ibid., pp. 418-427.

<sup>13</sup>Ibid.

Lincoln, op. cit., pp. 480-499.

Schelling, op. cit., pp. 461-462.

and "dollar diplomaey." Their newly discovered, fanatic "nationalism" is quick to misinterpret and escalate out of all reasonable proportions, injudicious and unskillful attempts to provide sound guidance and advice. Even a suspieion of attempts to wield undue influence on the polieies of a new nation have brought loud eries of "imperialism" and serious breaches in friendly relations among nations.<sup>14</sup>

The decisions required for the employment of any of the weapons in the arsenal of economic warfare must be very carefully thought out and all alternatives carefully weighed. All means of repressive economic activity may have long-lasting and far-reaching effects on the world economic environment. The repercussions and undesirable effects these measures may have on the domestic, as well as the international, economy must be considered and all aspects of comparative disadvantage decided. In other words, "who is going to get hurt the most?"<sup>15</sup>

---

<sup>14</sup>Padelford and Lincoln, op. cit., p. 413.

Yuan-li Wu, Economic Warfare, p. 326.

<sup>15</sup>Wu, op. cit., pp. 366-367.

## CHAPTER 4

### CONCLUSIONS

In reviewing the preceding chapters and in striving to arrive at logical conclusions, there were several factors that should be considered paramount and which should be kept in the immediate foreground as all other elements are weighed and balanced. First, the foreign economic policies of the United States have a deep and far-reaching influence on the day-to-day activities and the life of all peoples of the world. Since World War II, the United States has assumed a role of world leadership that carries with it an awesome responsibility. Second, there are states in the world that depend upon foreign trade not only for economic growth but also their very existence, for example, Great Britain and Japan. If the United States policies severely restrict their trade, self-preservation will force them to look elsewhere for sources of materials and markets, even if it means greater dependence on trade with the Communist blocs. Third, because of world-wide responsibilities, which are even secondary to our own welfare, the effects of economic measures on the world economy, and our own, must be calculated carefully, regardless of the amount of damage they may have on China.

The conclusions in this chapter will be based on a brief discussion of each of the economic measures listed in chapter 3, and the chapter will be closed with a recommended strategy for imposing repressive economic measures against Communist China.

Economic intelligence, or information, of the whole world is extremely important, and this is especially true concerning Communist China who does not presently issue any official statistics. There are numerous governmental, academic, and commercial agencies, as well as private individuals, whose specific mission is to seek out and collect just such information. In this area our efforts should be directed toward expanding this collection effort and improving the facilities for the wider and more complete coordination and exchange of information. I visualize the need here primarily as more financial and other support to existing agencies whose resultant product is of an unclassified nature. The world needs more unclassified information.

Export and import controls on our own trade are presently established. In 1950 the President invoked the provisions of the Trading with the Enemy Act which ceased all private and commercial transactions between the United States and Communist China. I think this policy should be continued, not only for the adverse effect it may have on their economy, but mainly for the political, psychological, and diplomatic effects. It denies to Communist China the prestige of even semi-approval or diplomatic tolerance of their conduct on the world scene.

The present embargoes in effect against China as a result of the Korean War are beginning to waste away. States are becoming more and more liberal in their interpretation of the term "strategic goods" and thereby reducing the number of "forbidden items" in conducting

trade with China or other Communist countries. This relaxation of the embargo is one of the results of the constant search by Western States for more and larger markets for the products of their growing and expanding industrialization. In this case also, there are political and diplomatic advantages to be gained by keeping the embargoes in being. Therefore, the United States must take more positive measures to increase and expand our markets for the products of these Western States, rather than negative, punitive actions to reduce the trade with China. This will be discussed more fully under the subsequent headings of normal international trade policies.

Tariffs and "favored-nation" status can be used in a positive manner to increase the markets and their attractiveness to products of the Western States. This will require a review of our present tariff policies and will lead to the politically explosive questions of protecting American industry and jobs and the need to protect certain industries for national security. Much of the support for tariffs stems from the efforts of both business and labor to resist the need for additional investment to modernize, automate, and so increase productivity. This also means that a rise in costs, such as wages, and prices would have to stay more in line with rising productivity. The offer of "favored-nation" status to emerging states would do much to assure them of markets for their exports and help them toward stabilization. These concessions to imports could be accomplished through trade agreements which would also accord some relaxation by the other states of restrictions against our

exports, thereby improving markets for our products. The prime problem in the case of tariffs is overcoming the initial cry of protectionism so that these measures can be used to provide markets for exports from industrialized Western States in order to deny these exports to China and to capture exports from developing countries.

One use of trade agreements was touched on in the preceding paragraph, but their use can be extended. They can be negotiated bilaterally or multilaterally in a trend toward building a bloc of states participating in mutual economic cooperation. As this expands to include more and more Western States, the greater will be the benefits available from the economic principle of comparative advantage. At the same time, the "rope" of economic isolation will be drawn tighter about China.

No great benefits are to be derived from the use of quantitative controls such as import quotas, boycotts, and blacklisting. This is a negative approach which would cut off imports into this country without offering any alternative course of action to the exporting state. If economic policies are not sufficiently dynamic as to offer some acceptable alternatives, all that is done is to force trade in the direction of Communist China. Much more substantive action can be accomplished through trade agreements and other measures.

Impounding foreign assets has no application in this case. There are no known loose assets of China in the United States, and

such drastic action would not be tolerable if applied to any other state. The only case where such measures could be applied would be to freeze the assets of a state, or individuals in a state, that was taken over by China, in order to prevent such assets being used by China.

Preclusive buying and dumping will be covered in the same paragraph since they both are too expensive, and especially too disruptive to free world markets, to be used in peacetime as repressive economic measures. A great portion of the Chinese imports consist of industrial plants, machinery, and equipment, but at such a low level of technology that they could not be used for anything but scrap. Further, the other major imports are food grains which the US already has in quantities surplus to needs, and the United States would never accept the moral responsibility of contributing to starvation any place in the world.

Foreign aid is a tool that can be used to a greater extent than any of the others. When used judiciously in ways discussed in the previous chapter, it is a two-edged tool. First, it strives to assist in the attainment of political stability and economic progress among the underdeveloped countries. Second, it serves to deny new recruits to the political and economic influence of Communist China. There is no doubt that at times our motives are questioned, we are subjected to abuse and accusation, and we often feel that we are trying to save states in spite of themselves. The road is not easy, it is not fast. It will take skill, tact, patience, and persistence, but the results will be well worth the effort.

There are several aspects of the economy of Communist China that make it less responsive to, and less susceptible to damage by, outside manipulation. Certain factors are inherent in a strongly directed economy that erect a barrier between the economic activity in the world market place and the normal productive functions taking place within the country. The barrier insulates or protects the internal economic operations from the effects of outside influence.

The strong, centralized control the Communist Chinese government exercises over the economy creates an organization that can react immediately in the face of repressive economic measures. To counteract an interruption in imports, the government can order an immediate change to production of an import substitute, concurrent with the development of an alternative source of further imports. There is no private enterprise operating on a profit motive to be disrupted by a possibly unfavorable cost ratio of the substitute items or sources. All imports and exports pass through government controlled trading companies that manage all aspects of foreign trade, including prices. Unfavorable costs can be absorbed over the entire spectrum of economic operations at the will of the government. Likewise, reaction to any unfavorable activity among exports can also be apportioned with greater flexibility by the government to minimize disruption to any particular sector or industry.

Since the beginning of the Sino-Soviet rift in 1960, the economy of Communist China has not placed any dependence on outside aid. There is no military or economic assistance that can be suspended,

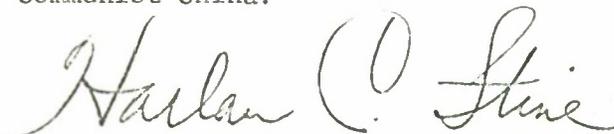
nor is there any flow of foreign capital that could be interrupted. The absence of these targets that are vulnerable to repressive measures strengthens China's position relative to external influences.

As a further extension of this same theme, self-sufficiency has always been one of the objectives sought by Communist China. The attainment of this goal has been further emphasized since the regime's bitter experience with the Soviet Union's withdrawal of assistance. The pattern of rapid industrialization has always been directed toward the firm establishment of the basic heavy industries. This would provide China with the means and resources to build the machinery and equipment needed to expand the productive capacity of all other sectors of the economy. China has been specifically striving to build an economy that would be impervious to outside influence.

#### SUMMARY

In summary, a strategy for imposing repressive economic measures against Communist China must consist primarily of the use by the United States of more dynamic foreign trade policies that will strengthen and increase the trade among the states of the free world, provide for economic stabilization and growth of the underdeveloped countries, and diminish the need for, and attractiveness of, Communist Chinese trade. Some of the specifics which these trade policies should also accomplish are as follows:

1. Support the expansion of economic intelligence effort.
2. Continue the present prohibition of United States commercial transactions with Communist China, principally for the political and diplomatic effects.
3. Encourage maintenance of the embargo against Communist China and strive, through positive actions, for greater mutual economic cooperation among Western States to increase Chinese economic isolation.
  - a. Review and change where possible our tariff and favored-nation policies.
  - b. Make more effective use of trade agreements.
4. Continue the maximum use of foreign aid for world betterment and the secondary objective of assisting in the political and economic isolation of Communist China.



HARLAN C. STINE  
Colonel, Armor

## BIBLIOGRAPHY

1. Barnett, A. Doak. Communist China and Asia. New York: Harper and Brothers, 1960. (DS 777.55 B3)  
  
(An assessment of the problems posed for the US by the political, economic, and military facets of the challenge in Asia of Communist China.)
2. Barnett, A. Doak. Communist China in Perspective. New York: Frederick A. Praeger, 1962. (DS 777.55 B31)  
  
(Derived from a series of lectures concerning happenings, conditions, and life in Communist China.)
3. Basch, Antonin. The New Economic Warfare. New York: Columbia University Press, 1941. (HB 195 B37)  
  
(An examination of the economic impact of a modern total war and the special preparation such a war involves. Of little use in this study.)
4. Chao, Kang. "Agriculture in China Today." Current History, Vol. 49, No. 289, Sep. 1965, pp. 170-175.
5. Chao, Kang. The Rate and Pattern of Industrial Growth in Communist China. Ann Arbor: The University of Michigan Press, 1965. (HC427.9 C 441)  
  
(A statistical study to construct a reliable index of industrial output for period 1949-1959. Of limited use for my purposes.)
6. Cheng, Chu-yuan. Communist China's Economy, 1949-1962. Newark: Seton Hall University Press, 1963. (HC 427.9 C 455)  
  
(An analysis of the economic changes during this period with emphasis on the developments in the Great Leap Forward. Very useful.)
7. "China Again Buys Wheat in Canada." New York Times, 26 Oct. 1965, pp. 1, 65.
8. Clark, Colin. "Economic Growth in Communist China." China Quarterly, No. 21, Jan.-Mar. 1965, pp. 148-167.

9. Einzig, Paul. Economic Warfare. London: Macmillan and Co., Ltd., 1940. (HB 195 E 43)  
  
(A survey of economic measures used early in World War II by Great Britain. Of little use.)
10. Heenan, Brian. "China's Petroleum Industry, I and II." Far Eastern Economic Review, Vol. XLIX, No. 13, 23 Sep. 1965, pp. 565-567, and Vol. L, No. 2, 14 Oct. 1965, pp. 93-95.
11. Hu, Chang-tu. China. New Haven: Human Relations Area Files, Inc., 1960. (DS 706 H 8)  
  
(A comprehensive account of all aspects of contemporary Chinese society under the Communist regime. Professor Wu collaborated on economic portion. Very useful.)
12. Hunter, Holland. "Estimated Chinese Growth Trends, 1952-1965." The ASTE Bulletin, Vol. III, No. 2, Summer 1965, pp. 5-10.
13. Hwang, Tien-chien. The Lasting Crisis on Mainland China in 1964. Taipei: Asian Peoples' Anti-Communist League, 1965. (DS 777.55 H 87)
14. International Monetary Fund and International Bank for Reconstruction and Development. Direction of Trade, Annual 1958-1962. Washington: 1964. (HF 1016 D 52)
15. Kao, Hsiang-kao. Chinese Communist Foreign Trade and Diplomacy. Taipei: Asian Peoples' Anti-Communist League, 1964. (HF 3776 K3)  
  
(A study of China's foreign trade, to include: organization, policy, imports, exports, and balance of payments. Useful.)
16. Karnow, Stanley. "How Communist Economies Failed in China." Fortune, Vol. LXVIII, No. 1, July 1962, pp. 155-157, 228, 230, 235, 236, 238.
17. Keatley, Robert. "Red China's Economy." Wall Street Journal, 5 May 1965, p. 16.
18. Lewin, Pauline. The Foreign Trade of Communist China. New York: Frederick A. Praeger, 1964. (HF 3776 L 4)  
  
(An analysis of China's international trade highlighting the new pattern emerging after 1960 and seeking to discover any predictable trends. Very useful.)

19. Lincoln, George A., ed. Economics of National Security. New York: Prentice-Hall, Inc., 1950. (UA 18 L 3)
- (A study of the economic problems caused by the foreign policy of our country, the related principles of national mobilization, and the modern elements of security having economic significance. Useful.)
20. Liu, Ta-chung, and Yeh, Kung-chia. The Economy of the Chinese Mainland: National Income and Economic Development, 1933-1959. Santa Monica: The Rand Corporation, 1963. (RAND RM-3519-PR)
21. Padelford, Norman J., and Lincoln, George A. The Dynamics of International Politics. New York: The Macmillan Co., 1962. (JX 1308 P 281)
- (An analysis of the characteristics, factors, and methods of formulating and implementing foreign policies in a changing world. Chapter on economic instruments of foreign policy was very helpful.)
22. Perkins, Dwight H. "China's Impact on the Third World." The Correspondent, No. 35, Autumn 1965, pp. 74-79.
23. Powell, Ralph L. "Commissars in the Economy." Asian Survey, Vol. V, No. 3, Mar. 1965, pp. 125-138.
24. Ravenholt, Albert. Red China's Sagging Industry. New York: American Universities Field Staff, Inc., 1962. (D 16.25 A 6 A 76)
25. "Red China: Paper Tiger?" U.S. News and World Report, Vol. LIX, No. 17, 25 Oct. 1965, pp. 40-44.
26. Rostow, W. W. An American Policy in Asia. New York: Technology Press of M.I.T. and John Wiley and Sons, 1955. (DS 518.1 R 8)
27. Schelling, Thomas C. International Economics. Boston: Allyn and Bacon, Inc., 1958. (HF 1411 S 29)
- (An analysis of the economic impact on the rest of the world of our trade, the relationship between foreign affairs and economic theory, and the intergovernmental impact of economics. Very helpful.)
28. Schlesinger, James R. The Political Economy of National Security. New York: Frederick A. Praeger, 1960. (HC 106.5 S 35)

29. Szezepanik, Edward F., ed. Symposium on Economic and Social Problems of the Far East. Hong Kong: Hong Kong University Press, 1962. (HC 427.9 S 9)
- (A collection of papers presented to a symposium by many noted scholars during the University's Golden Jubilee Congress in 1961. Very helpful.)
30. "Too Much Steel in the World?" U.S. News and World Report, Vol LX, No. 5, 31 Jan. 1966, p. 94.
31. Tseng, Wen-ehing. The Socialist Industrialization of Communist China. Moscow: 1959. (HC 427.9 T 75)
- (A JPRS translation from Sotsialisticheskaya Industrializatsiya Kitaya /Socialist Industrialization of Communist China/ Moscow, 1959, pp. 140-381.)
32. US Congress. Foreign Assistance Act of 1965. Washington: US GPO, 1965. (HC 60 U 71 1965e)
33. US Library of Congress Legislative Reference Service. A Background Study on East-West Trade. Washington: US GPO, 1965.
34. "Women in Communist China." Union Research Service, Vol. 40, No. 20, 7 Sep. 1965, pp. 287-300.
35. Wu, Yuan-li. "China's Economy and Its Prospects." Current History, Vol. 47, No. 277, Sep. 1964, pp. 166-172.
36. Wu, Yuan-li. "Communist China's Economy: Critical Questions." Current History, Vol. 49, No. 289, Sep. 1965, pp. 164-169.
37. Wu, Yuan-li. Economic Warfare. New York: Prentice-Hall, Inc., 1952. (HB 195 W 8)
- (A study on the economies of international trade in relation to cold war, military preparedness, and wartime conditions. Helpful.)
38. Wu, Yuan-li. The Economy of Communist China: An Introduction. New York: Frederick A. Praeger, 1965. (HC 427.9 W 833)
39. Yamanouchi, Kazuo. "Changes in Markets in Chinese Foreign Trade and Their Background." The Developing Economies, Vol. III, No. 3, Sep. 1965, pp. 286-304.
40. Yang, Ying-chih. "Several Problems in Current Planning Work." Economic Planning in Communist China. New York: JPRS, 1960, pp. 1-9.